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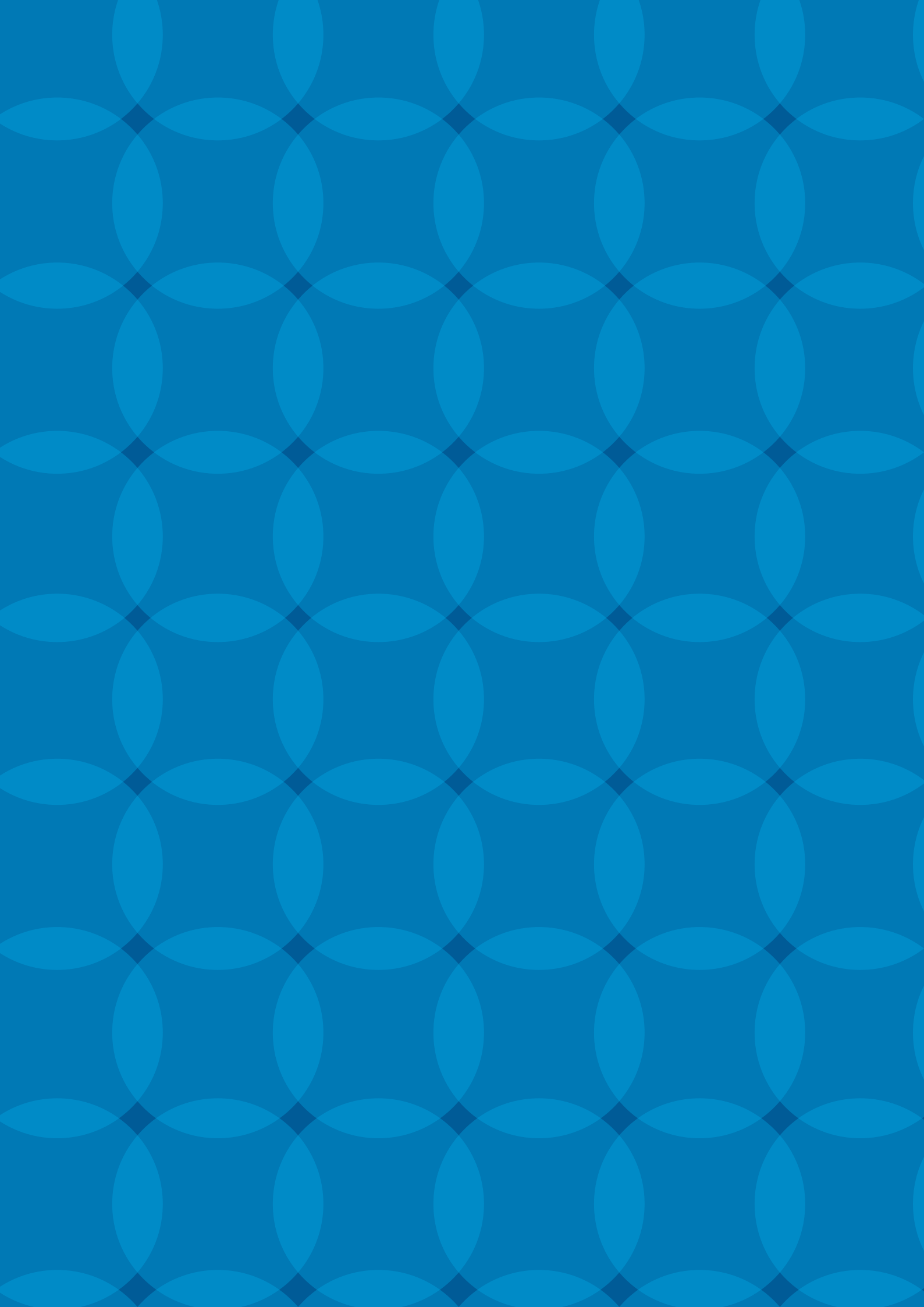
FINNISH CENTRE FOR PENSIONS, WORKING PAPERS

# Survivors' pensions in Finland

Mervi Takala, Janne Salonen and Jukka Lampi



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ELÄKETURVAKESKUS



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## ABSTRACT

In this report, we describe the Finnish survivors' pensions system and the recipients of survivors' pensions. We review the statutory pension benefits. Mainly, Finnish survivors' pensions are financed with pay-as-you-go (PAYG) pension contributions.

We start by describing the Finnish survivors' pensions in the national and the earnings-related pension systems. In the following chapter, we describe the demographic features of the recipients of survivors' pensions. The description is based on population-level register data of the registers of the Finnish Centre for Pensions. This chapter is followed by a review of the survivors' pension expenditure as part of the other statutory pension provision. We also estimate how it will develop in the future. The pension expenditure scenario is based on the long-term projections of the Finnish Centre for Pensions. The same projections form the basis of the calculations presented for Finland in the ageing report of the European Commission. Finally, we assess the Finnish survivors' pension system.

**Key words:** Survivors' pensions, surviving spouse, poverty of surviving spouses, income, Finnish pension system

## ABSTRAKTI

Tässä raportissa kuvataan Suomen perhe-eläkejärjestelmää ja perhe-eläkkeensaajia. Tarkastelun kohteena ovat lakisääteiset eläke-etuudet. Suomen perhe-eläke rahoitetaan pääasiassa jakoperusteisilla vakuutusmaksuilla (PAYG).

Aluksi kuvaillaan Suomen perhe-eläkejärjestelmä kansaneläkkeessä ja työeläkkeessä. Raportin seuraavassa luvussa kuvataan perhe-eläkkeensaajien demografisia piirteitä. Kuvailu perustuu väestötason rekisteriaineistoihin, joita ylläpidetään Eläketurvakeskuksessa. Seuraavaksi tarkastellaan perhe-eläkkeen kustannuksia osana muuta lakisääteistä eläketurvaa sekä arvioidaan sen tulevaa kehitystä. Eläkemenoskenaario perustuu Eläketurvakeskuksen pitkän aikavälin laskelmaan, joka on myös Euroopan komission ikääntymislaskelmien perusta Suomen osalta. Lopuksi arvioidaan Suomen perhe-eläkejärjestelmää.

**Asiasanat:** Perhe-eläke, leski, leskien köyhyys, toimeentulo, Suomen eläkejärjestelmä

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## 1 Introduction

The Finnish survivors' pension consists of the surviving spouse's pension and the orphan's pension. The pensions are paid both as national and earnings-related pensions. From the national pension system, an initial pension of a fixed amount is paid to all surviving spouses for six months. The orphan's pension paid to the children is also of a fixed amount. Under certain conditions, the surviving spouse is paid a surviving spouse's pension from the earnings-related pension system for the rest of his or her life. A prerequisite for the surviving spouse's pension is that the spouses were married. Common-law surviving spouses do not receive the surviving spouse's pension. Children are paid the orphan's pension until they turn 18 years.

The survivor's pension was introduced in Finland in 1967, which is relatively late in an international comparison. Finland and Portugal were the only two countries of the 27 European countries that lacked a general survivor's pension system at that time. The late introduction of this pension type in the Finnish social security system can be explained by the late change in Finland from an agricultural to an industrial society. For example, compared to Sweden, Finland's industrialization began at a clearly later point in time, and the change in the social policy of the agricultural society did not take place until the 1960s. (Karisto *et.al.* 1998.)

In 1962, the Employees' Pensions Act came into force. It lacked pension provision, however, for farmers and the self-employed. Their income, together with that of surviving spouses and children, was among the most pressing social security problems in the country. The lack of security for surviving spouses and children was seen as a disgrace (Hannikainen & Vauhkonen 2012). The poor families of surviving spouses were fully dependent on discretionary benefits, that is, on poor relief.

The beneficiaries of the earnings-related survivors' pensions that came into force in 1967 were female surviving spouses and the children of the deceased who were under the age of 18. In 1969, the survivors' pensions also became part of the national pension system.

Since then, the survivors' pensions have undergone only one major reform that came into force in 1990 as a result of the work of a disagreeing committee. The main amendments to the act related to the equal right of men and women to receive the surviving spouse's pension and the separation of the surviving spouse's pension and the orphan's pension (Hannikainen & Vauhkonen 2012).

The calculation of the surviving spouse's pension was changed in the 1990 pension reform when the so-called pension deduction was introduced. The integration of the surviving spouse's pension reduces the amount of the pension by taking into account the surviving spouse's own earnings-related pension in payment or his or her accrued earnings-related pension. The orphan's pension is paid until the child turns 18 years. Since the reform in 1990, only minor changes have been made to the surviving spouse's pension.

### *Surviving spouse's pension in other countries<sup>1</sup>*

Compared to many other countries, the surviving spouse's pension system in Finland has undergone only minor reforms. Since the mid-1980s, many European countries have been under pressure to reform their surviving spouse's pension system. The amendments made have affected, among other things, gender equality, the status of the surviving cohabiting spouse, and the means-testing of the surviving spouse's pension, i.e. the securing of the surviving spouse's real need for the pension. Although the need for the same changes has been discussed in many countries, they have been realised in varying ways and at different points in time. Most European surviving spouse's pension systems still support the *male breadwinner model*, in which the reduced income of the female surviving spouse is secured in the event of the death of the male spouse. The same applies to Finland. (Turunen 2010.)

In most countries, the surviving spouse's pension can be granted both to female and male surviving spouses. Registered partnerships are equal to marriage nearly without exceptions. Cohabiting partners are entitled to the surviving spouse's pension to a varying degree. In general, one of the requirements is that the cohabiting or registered spouses have at least one child together. It is common for the surviving spouse's pension to be paid out without limitations regarding age or the duration of the cohabitation if the cohabiting partners have or have had a child together.

For how long surviving spouse's pensions are paid varies also between countries. In two of the Nordic countries – Finland and Norway – and in central and southern European countries, the surviving spouse's pensions are paid either until the retirement of the surviving spouse or until his or her death, unless the surviving spouse remarries. In Ireland, Sweden and Great-Britain, the pensions are paid only for a fixed term. In Denmark, the surviving spouse's pension is paid only as a lump-sum benefit from the earnings-related pension system.

In Europe, the proportion of female surviving spouses in the various age groups is clearly higher than that of male surviving spouses. Two per cent of the 50–64-year-old male population are surviving spouses, while the equivalent ratio for women is 10 per cent. The equivalent percentage in the population aged 65 or above is 14 per cent for men and 45 per cent for women (Ahn 2005). The reason underlying the large share of female surviving spouses is that women live longer than men and are younger when they marry.

In general, the income of female surviving spouses compared to that of male surviving spouses is weaker, and women also report more often than male surviving spouses of their financial problems. Of the current elderly female surviving spouses, many have been stay-at-home mothers and have raised their children at home. Hence, the surviving spouse's pension forms the basis of their income. The largest gaps in the income of female and male surviving spouses can be found in Denmark, Spain, Austria and Finland (Ahn 2005). Throughout Europe, poverty among the elderly is mainly poverty of old female surviving spouses. As the lifespans of surviving spouses are extended, the financial hardships increase (Bíró 2013).

The surviving spouses in Greece and Portugal have the lowest income. Taking the living expenses into account, the gaps of pension levels are narrowed. In the countries with a low

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1 Appendix 1 includes a brief description of the main features of the survivors' pensions in the other Nordic countries.



income level (Greece, Ireland, Italy, Spain and Portugal), the low housing expenditure evens out the income gaps between the countries (Ahn 2005). Living together with the children (or other persons) reduces the poverty risk of female surviving spouses in particular (Bíró 2013).

The reasons underlying the weakening livelihood of surviving spouses may be due, not only to the lower income of the family after the death of the other spouse, but also to the poorer health of the surviving spouses compared to the married population of the same age. Due to poorer health, surviving spouses more often have a weaker working ability. In European countries, problems relating to the income of surviving spouses is also explained by the fact that, already before the death of the spouse, the socioeconomic status compared to that of others of the same age was lower (Bíró 2013).

The survivor's pension expenditure varies greatly between European countries when it is proportioned to the overall pension expenditure (Appendix 2). In 2012, the Nordic countries ranged below average on an EU level. In Finland, the statutory survivor's pension expenditure accounts for 2.9 per cent of the pension expenditure, while it accounts for 5.4 per cent on average in the EU28 countries. When comparing the Nordic countries, the expenditure was the highest in Finland. In southern Europe, the survivor's pension expenditure may amount to one tenth of the overall pension expenditure (Eurostat 2013).

### *Finnish discussion on survivors' pensions*

In this report, we describe the benefits of the Finnish survivor's pension system and the prerequisites for receiving the pension. In addition, we describe features of the recipients of survivor's pensions in light of population-level register data. The Finnish Centre for Pensions and the Social Insurance Institution of Finland maintain a register of statutory pensions, the data of which we are using in this report. We have supplemented this data with data on recipients of survivors' pensions from the earnings-related pension register of the Finnish Centre for Pensions.

This report is descriptive and outlines the current status of survivors' pensions. There is very little domestic and international research on survivors' pensions. The most recent thorough studies within social sciences on survivors' pensions done in Finland date 25 years back (Tuominen 1988; Hyrkkänen 1988). Although some studies on surviving spouses and orphans have been carried out more recently, the focus of those studies has not been on the system itself. Recently, survivors' pensions have been examined in Finland from the individual's point of view, focusing on, for example, the grief of the child(ren) and the how surviving spouses have coped. There is relatively little international, and hardly any domestic, economic research on surviving spouses or on becoming a surviving spouse.

Already since the 1960s, research within the field of psychology has examined the stressfulness of changes in life circumstances. As can be expected, becoming a widow or a widower has been observed to cause considerable stress. This is also evident in the higher sickness rates and the growing mortality rates of surviving spouses in the years following the death of the spouse.

The public discussion on survivors' pensions has been occasional in Finland. Although pension issues have been dealt with frequently in the press and other media in recent years, the focus of the discussion has generally been on the retirement age, the sustainability of pension financing and intergenerational fairness. The reasons underlying disability pensions and the means to reduce starting disability pensions are also frequently recurring topics. In the spring of 2012, some discussions raised by economists were conducted on the incentive effects of the surviving spouse's pension. The equality between married and cohabiting surviving spouses and the allocation of costs were discussed. The problem raised was that those living alone also have to contribute to the income of surviving spouses. After a few addresses, the discussion died down, however.

The forthcoming reform of the Finnish earnings-related pension system will come into effect in 2017. The labour market organizations play a key role in this reform. It was agreed that the labour market organisations and the ministries will evaluate how up-to-date the surviving spouse's pension is. If amendments are needed, separate acts will be imposed later. The assessment will be based on two Finnish reports previously published in Finnish by the Finnish Centre for Pensions (Takala (ed.) 2013; Hietaniemi & Ritola (eds.) 2014). The most important results of these reports are presented in this Working Paper.

This report has partly been motivated by the microsimulation of the pension system. The microsimulation model of the Finnish Centre for Pensions is used to assess the effects of the cost allocation of Finnish pension policy (Tikanmäki *et.al.* 2014; 2015) The model will be developed in the future so that it can be used to simulate future survivors' pensions. The data of this report can be used to, for example, assess the effects of starting disability pensions and the age distribution. The age difference between married spouses is also part of the default base of the microsimulation.

## 2 Finnish survivor's pension system and recipients' subsistence security

The Finnish survivor's pension system consists of statutory pensions, employees' and farmers' life insurance and private life insurance pensions. The statutory survivors' pension is paid as a national pension to the surviving spouse aged less than 65 years and to minor children. The survivors' pension of the earnings-related pension system consists of the surviving spouse's pension and the orphan's pension, which is paid to children under the age of 18.

### 2.1 Survivor's benefits of the Social Insurance Institution of Finland in 2015

#### *Spouse's pension*

The spouse's pension paid by the Social Insurance Institution of Finland is paid to a surviving spouse who is under 65 years and has thus not yet reached the national pension retirement age. The spouse's pension is an initial pension paid to all surviving spouses for six months. In 2015, it amounted to EUR 328 per month. After the initial pension, the surviving spouse may receive a continuing pension, which consists of a basic amount and a means-tested supplement. The pension is paid until the end of the month in which the surviving spouse reaches the age of 65. The basic amount of the continuing pension is EUR 103 per month and can be paid if the deceased and the surviving spouse have a child who is under 18 years of age. The surviving spouse may also be paid a means-tested supplement. For a single recipient, the full supplement is EUR 534 per month, and for a married or cohabiting recipient, EUR 462 per month.

#### *Orphan's pension*

The orphan's pension of the Social Insurance Institution of Finland is paid until the child turns 18. If the child is a full-time student, the Social Insurance Institution will pay the orphan's pension until the child turns 21. The basic amount of the orphan's pension is the same for all: EUR 60 per month. The additional amount is offset against any other survivors' pensions that the child receives. The full rate of the additional amount is EUR 91 per month. The orphan's pension for a studying child aged 18–21 years is the same as the basic amount.

### 2.2 Survivors' pension based on earnings-related pension acts in 2015

The survivors' pension based on earnings-related pension acts can be paid to the spouse and children of a deceased person who was covered by the earnings-related pension acts. The survivors' pension can be paid to the surviving spouse, a former spouse, the surviving party in a registered partnership and the children.

The right to a surviving spouse's pension is based on marriage or a registered partnership. If the surviving spouse and the deceased do not have or have not had a child together but were married before the deceased reached the age of 65 and the surviving spouse the age of 50, the surviving spouse is entitled to a surviving spouse's pension.

The survivors' pension is based on the pension that the deceased would have received if he or she would have become disabled at the time of death. If there are children who will receive an orphan's pension, the full surviving spouse's pension is the share of the deceased person's pension that the survivors' pension is based on, listed in Table 2.1.

**Table 2.1**

*Shares of surviving spouse's pension and orphan's pension.*

	Number of children				
	0	1	2	3	4-
Surviving spouse's pension	6/12	6/12	5/12	3/12	2/12
Orphan's pension	-	4/12	7/12	9/12	10/12
<i>Total</i>	6/12	10/12	12/12	12/12	12/12

### *Surviving spouse's pension*

If the surviving spouse is the sole beneficiary, the full surviving spouse's pension is half of the deceased person's pension. The pension that the surviving spouse has accrued in his or her own right may reduce the amount of the surviving spouse's pension. Hence, the surviving spouse's pension may be smaller than the pension which is his or her share of the survivors' pension calculated based on the deceased person's pension.

The surviving spouse's pension is reduced based on the surviving spouse's own income when the youngest child reaches the age of 18. The deduction is done immediately as the pension starts if the surviving spouse has reached the age of 65 at the time of death of the spouse or if the surviving spouse receives an earnings-related pension based on his or her own gainful employment. However, if the surviving spouse has children who are under the age of 18, the surviving spouse's pension will not be reduced.

The surviving spouse's pension is reduced by a fixed basic amount of EUR 681. If the surviving spouse's own pension exceeds this amount, half of the difference is deducted from the full surviving spouse's pension. The reduced surviving spouse's pension is calculated according to the following formula:

Reduced surviving spouse's pension = 0.5 x the deceased person's pension – 0.5 x the excess  
the excess = the surviving spouse's own pension – basic reduction amount (EUR 681.50).

In the last decade, the number of reduced earnings-related pensions has increased. In 2014, approximately 48 per cent of all surviving spouse's pensions in force had been reduced, while the equivalent percentage in 2005 was 29. The reduction can be as much as thousands of euros per month, but the average reduction is EUR 260–300/month (in 2014 prices). In

some cases, the reduction will lead to a zero pension. Between 1994 and 2014, approximately 10 per cent of all surviving spouse's pensions per year have been reduced to zero.

For some surviving spouses, the surviving spouse's pension is paid as a lump-sum benefit. This is the case if the surviving spouse is less than 50 years old and remarries, or if the pension is very small. After that, the benefit will no longer be paid as a monthly benefit. The lump-sum benefits are usually very small amounts, but there are exceptions, as well. When the surviving spouse's pension is paid as a lump sum because the surviving spouse remarries, the lump sum equals the combined surviving spouse's pension payments over a period of three years.

### *Orphan's pension*

The orphan's pension of the earnings-related pension system is paid to children who are under 18 years of age at the time of the parent's death. A child aged less than 18 is always entitled to an orphan's pension after the death of his or her own parent(s). An adopted child has the right to an orphan's pension after the death of his or her adoptive parent(s). The share of the orphan's pension of the deceased person's pension is listed in Table 2.1 above.

## **2.3 Accident insurance and group life insurance in 2015**

Everyone in an employment relationship, as well as farmers and soldiers, are insured with an accident insurance in the event of accidents at work or occupational diseases. In case of death at work, the accident insurance pays a burial grant, a surviving spouse's pension and an orphan's pension to the surviving spouse and the children. The accident insurance for athletes also includes compensation in the event of death.

Employees and farmers are covered by a group life insurance. It is a life insurance that the employer takes out and pays for. The insurance of farmers is paid for by the State and the insured.

The size of the compensation paid for by the life insurance depends on the age of the deceased and the number of dependent children. The compensation is paid as a lump sum. The younger the deceased is, the higher is the compensation: If the deceased is younger than 50 years, the compensation amounts to approximately EUR 16,400. With age, the compensation is reduced so that, if the deceased is over 60 years old, the compensation is approximately EUR 4,600. The increase for a child is EUR 7,400 per child.

Survivors' pensions are also paid from the obligatory workers' compensation insurance and motor liability insurance (LITA-insurance). Common-law spouses may also be entitled to such pensions. These pensions are primary in relation to survivors' pensions based on the earnings-related pension acts and are thus deducted from the survivors' pensions.

## 2.4 Individual life insurance offered by banks and insurance companies

Individual life insurance is not part of the statutory pension provision in Finland in terms of how benefits are determined or financed. The insurance companies<sup>2</sup> are liable for the life insurance risks. Individual life insurance includes not only pension provision in old age but also compensation in the event of death. The data available of private life insurance is scarce. In 2012, nearly 1.42 million people were covered by individual life insurance, which is approximately 30 per cent of the population aged 15 or older that year.

A person of working age who is interested in life insurance can select a fixed death benefit or a death benefit that is reduced with age. Unlike in the statutory survivors' pension, the insured can name the beneficiary of the death benefit or the pension.

Banks also sell life insurance policies. Those sold in the event of death are connected to the home loans of working-age households. The insurance is often linked to the amount of the house loan so that, as the house loan is reduced, the benefit amount of the life insurance is reduced.

## 2.5 Pension contribution and taxation of pension

The employee's earnings-related pension contribution is fully deductible in taxation. In practice, the deductibility is taken into consideration already when defining the withholding tax rate of the earnings. Both earnings from work and statutory pensions are subject to progressive taxation in Finland. The earnings affect the taxation of the surviving spouse's pension so that the earnings and the pension are added up, and then tax is paid on that amount. The tax rate of earnings with an average earnings level (EUR 40,000 per year) is approximately 30.5 per cent. A recipient of a survivors' pension who has reached the retirement age will pay taxes according to the tax rate for pension recipients. With an average income level of pension recipients (EUR 18,000 per year), the tax rate is 17.5 per cent.

In Finland, insurance companies encourage the public to secure their income in retirement by purchasing individual pension insurance policies or by investing in long-term savings accounts<sup>3</sup>. Pension contributions to a maximum of EUR 5,000 per year can be deducted in taxation.

A pension paid from a private life insurance does not reduce the statutory pension, nor *vice versa*.

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<sup>2</sup> In Finland, most insurance companies that handle statutory pensions also sell market-based life insurance policies.

<sup>3</sup> In long-term savings accounts, the service provider invests the paid assets in an agreed manner in various investment instruments. The account holder can withdraw the assets when he or she reaches retirement age, which is 63 years at the moment. The risk of failed investments lies with the account holder.

### 3 Recipients of survivors' pensions

In this chapter, we describe the recipients of survivors' pensions – spouses and children – in light of register data. The Finnish Centre for Pensions and the Social Insurance Institution of Finland maintain a register of statutory pensions. In this report, we have used the data in this register on persons who receive a survivors' pension. The statistics *Pensioners in Finland* (Official Statistics of Finland 2013a) is based on the same register data.

The tables and figures in this report include the survivors' pensions and pensions based on one's own working life. We have not separated the pension recipients who receive a pension under the national pension act from those who receive pensions under the earnings-related pension acts. The earnings or capital income of survivors' pension recipients have not been included in the review.

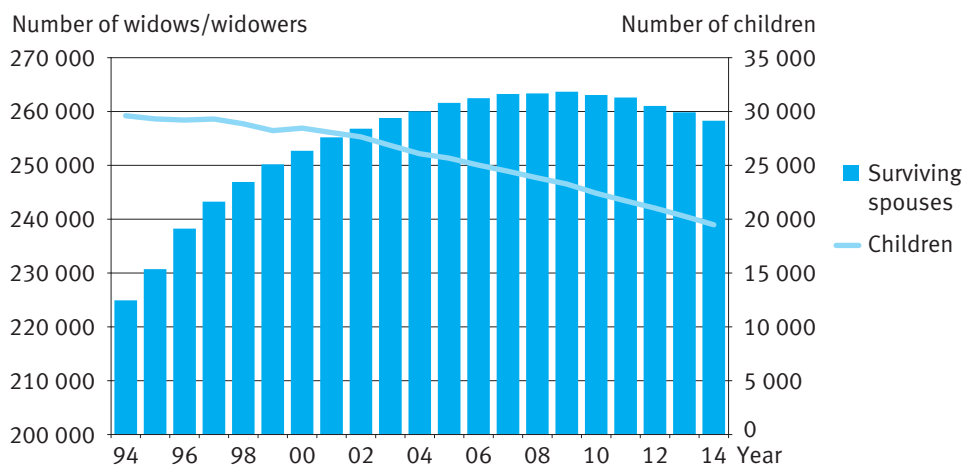
#### *Survivors' pension recipients by demographic features*

In 2014, survivors' pensions were paid to 258,400 surviving spouses (ca 17% of all adult pension recipients) and 19,600 children. Approximately 4,000 of them lived abroad. The number of surviving spouse's pension recipients has decreased since 2010 (Figure 3.1). The number of persons receiving a surviving spouse's pension based on a registered partnership is minor, less than 200 persons.

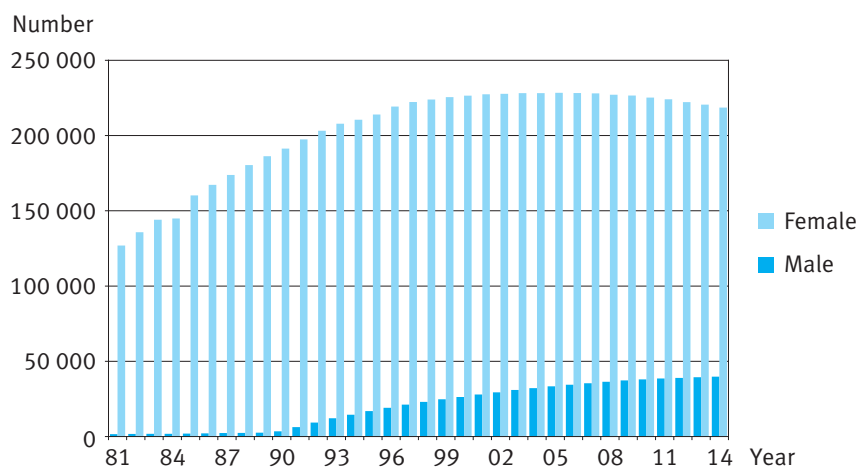
The number of recipients of the orphan's pension has been reduced by several hundred per year already for a longer period of time.

**Figure 3.1.**

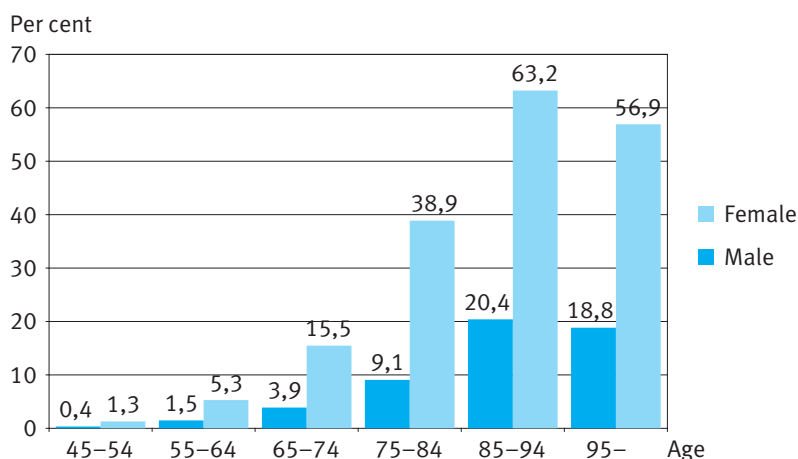
*Number of survivors' pension recipients 1994–2014.*



Most surviving spouse's pension recipients are women. Men were granted the right to receive a surviving spouse's pension in 1990. Since then, their share of all surviving spouse's pension recipients has grown slowly (Figure 3.2). Currently, 15 per cent of all recipients of a surviving spouse's pension are men.

**Figure 3.2.***Recipients of the surviving spouse's pension 1981–2014, by gender.*

The majority of the recipients of a surviving spouse's pension are women aged 65 or above (Figure 3.3). In practice, in four out of five cases, the recipient of a surviving spouse's pension is an elderly woman. Under 65-year-old female recipients account for 12 per cent of all female recipients of the surviving spouse's pension. The equivalent figure for men recipients is 18 per cent.

**Figure 3.3.***Share of surviving spouse's pension recipients of the entire population, per age and gender as on 31.12.2014, per cent.*

The recipients of the surviving spouse's pension are increasingly older. The average age in 1992 was 69.4 years, while it had risen to 77 years (median 79 years) by 2014. The largest group, measured in number of people, among both male and female surviving spouse's pension recipients are the 80–84-year-olds. Figure 3.3 shows that more than half of the women aged above 85 are widows. The ratio of male widowers in all ages is clearly lower than that of female surviving spouses. The low ratio of male surviving spouses is



explained mainly by the difference in mortality and by the fact that men became eligible for the surviving spouse's pension as late as in 1990.

The large ratio of female surviving spouses can be explained by the increasing longevity of women and by the fact that women marry men who are older. Table 3.1 shows the age difference to the deceased spouse of those who became widows or widowers in 2014. If the surviving spouse is a man, the deceased is, on average, 1.1 years younger (median 1.3). If the surviving spouse is a woman, the deceased is, on average, 3 years older (median 2.5).<sup>4</sup> The table also includes information on the age difference of people born in different years. It shows that the trends among men and women are different. Young widows have been closer in age to their spouses than have the widowers.

**Table 3.1.**

*Age difference between spouses in 2014, years.\**

Year of birth**	Number of persons	P10	P25	P50	P75	P90	Mode	Average value	Standard deviation
<b>Male surviving spouses</b>									
–1944	2 113	-5.6	-3.4	-1.2	1.1	4.0	-1.3	-0.86	4.345
1945 – 1959	1 024	-6.2	-3.7	-1.4	0.6	3.3	-2.2	-1.42	4.152
1960–	271	-7.0	-4.3	-1.9	-0.1	2.6	-0.1	-2.27	4.162
<i>Total</i>	<i>3 408</i>	<i>-6.0</i>	<i>-3.5</i>	<i>-1.3</i>	<i>0.9</i>	<i>3.6</i>	<i>-1.6</i>	<i>-1.14</i>	<i>4.293</i>
<b>Female surviving spouses</b>									
–1944	8 387	-1.4	0.5	2.8	5.5	8.8	1.7	3.37	4.485
1945 – 1959	2 505	-1.9	0.0	1.8	4.1	6.8	0.5	2.22	4.056
1960–	388	-3.4	-0.3	1.8	4.0	6.9	2.3	1.84	4.768
<i>Total</i>	<i>11 280</i>	<i>-1.5</i>	<i>0.4</i>	<i>2.5</i>	<i>5.2</i>	<i>8.4</i>	<i>1.8</i>	<i>3.06</i>	<i>4.435</i>

\* Age of the deceased – age of the surviving spouse. \*\* Date of birth of the deceased.

In Finland, the age difference between living spouses who have been married only to each other is, on average, two years. The difference has remained the same for nearly half a century. The first marriage is entered into at a later age now than before. In 2012, a Finnish woman married for the first time at an average age of 30.9 years and a Finnish man at an average age of 33. In the other Nordic countries, the average age is 1–2 years higher. If the groom is older than the bride, he is, on average, nearly four years older. The age gap has widened slightly. Correspondingly, if the bride is older, she is, on average, 2.7 years older than the groom. (Nikander 2010; UNECE 2015.)

The average age of the recipients of an orphan's pension at year-end 2014 was 15.4 years (median 15 years). In twenty years, the average age has increased by 0.7 years.

In Finland, the recipient of a surviving spouse's pension is not the same thing as a widow/er.

All people whose marital status is widow/er do not receive a surviving spouse's pension. In 2014, there were approximately 13 per cent more widows/widowers than surviving spouse's pension recipients. Before the survivors' pension reform in 1990, men were not

4 The age gap between married spouses has been 3.4 years for a long time (Family Federation of Finland 2015).

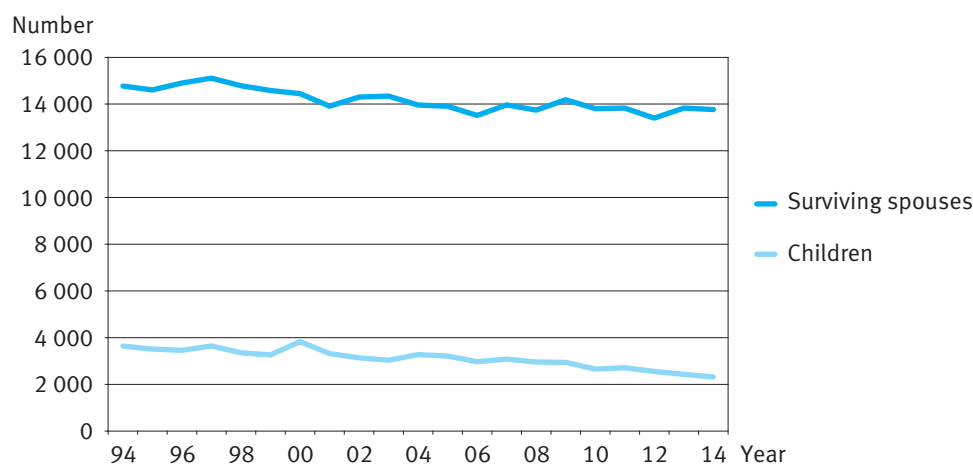
eligible for the private-sector surviving spouse's pension. As a result, there were clearly more widows/widowers than surviving spouse's pension recipients before the 1990s. The conditions for receiving this pension still exclude some widows/widowers from the scope of this pension provision. For one reason or another, all widows/widowers do not draw their surviving spouse's pension even if they are eligible for it.

If a widow who is younger than 50 years remarries, the right to a surviving spouse's pension remains. This is estimated to have led people to make calculated choices relating to their statutory pensions. The number of new marriages nearly doubles in the age group of 49-year-olds, so the age rule is viewed as an incentive to get married. This forms an exemption to the declining trend of forming new marriages based on age. Nevertheless, the number of marriages entered into at age 49 is minor. The peak in the statistics occurred in 1990. (Official Statistics of Finland 2013b.)

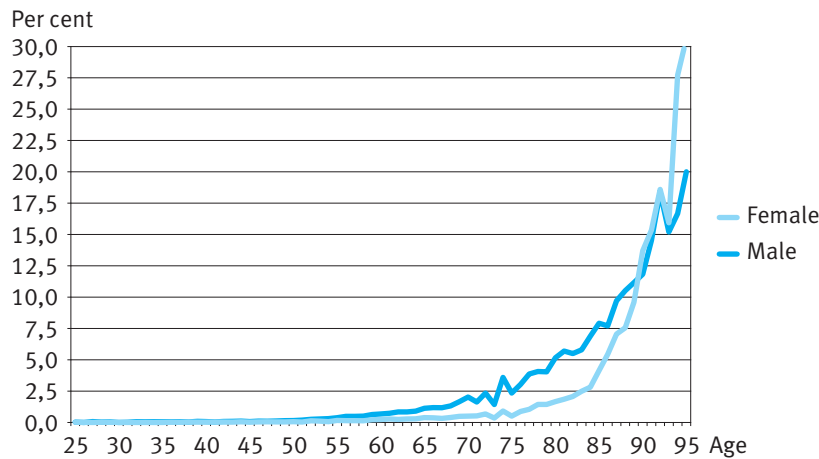
The number of new survivors' pensions has reduced in recent years due to the change in the population's age structure. Each year, there are approximately 15,000–18,000 starting survivors' pensions. In 2014, they numbered 16,090. On average, the new survivors' pensions numbered 17,600 per year. (Figure 3.4).

**Figure 3.4.**

*New surviving spouse's pension and orphan's pension recipients in 1994–2014.*



The surviving spouse's pension relates to mortality. In practice, there are gender gaps in mortality in all age groups. Figure 3.5 shows the age-dependency of mortality per gender in the married population. Appendix 3 includes more detailed information on the mortality of the working-aged and the retirees.

**Figure 3.5.***Mortality among the married in 2014, per cent.***Duration of surviving spouse's pension**

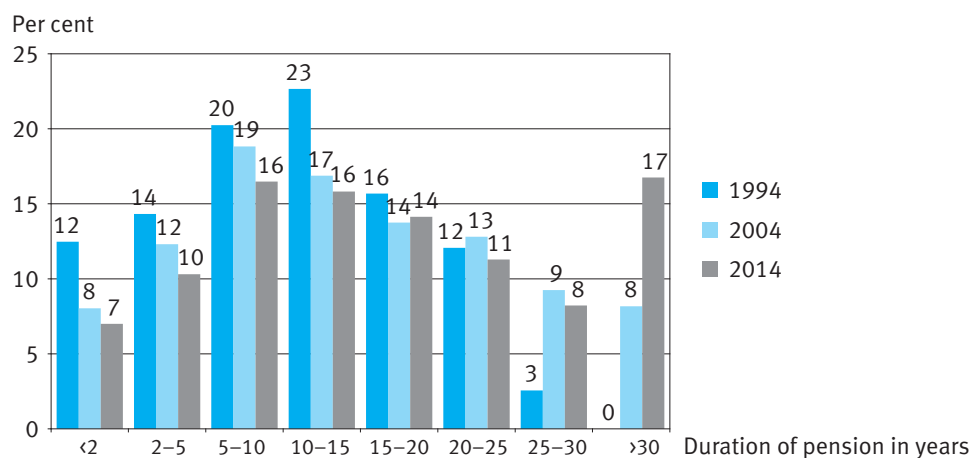
In Finland, the surviving spouse's pension ends when the surviving spouse dies. The continuously extending life expectancy thus makes a difference. As people live longer, surviving spouse's pensions will be paid for a longer period of time (Table 3.2). There is a considerable gap between men's and women's life expectancy in Finland. The life expectancy of Finnish men is the lowest in all of the Nordic countries (77.5 yrs), while it is on the same level as in the other Nordic countries (83.5 yrs) for women (Health Statistics for the Nordic Countries 2014).

While the surviving spouse's pensions that ended in 1994 had lasted for an average of 11 years, those that ended in 2014 had been in payment for an average of 17 years. Naturally, the average payment period of the orphan's pensions has remained virtually unchanged.

**Table 3.2.***Duration of survivors' pensions that have ended, years.*

Pension ended in	Number of persons	Surviving spouse		Child	
		Average	Median	Average	Median
1994	11 600	11.0	10.4	6.9	5.9
2004	15 200	14.5	13.0	7.1	6.3
2014	17 900	17.1	15.1	6.7	5.7

The extension of the payment period of surviving spouse's pensions is also evident in Table 3.6, in which the distribution of the duration under the review period is presented. Of all pensions that ended in 1994, 47 per cent had been paid for less than 10 years. In 2014, the same ratio was approximately 34 per cent. Today, nearly one fourth of all ending pensions have been in payment for more than 25 years.

**Figure 3.6.***Surviving spouse's pensions that ended in 1994, 2004 and 2014 by duration, per cent.*

The majority of survivors' pension recipients receive both a national pension and an earnings-related pension. The significance of the national pension in the pension provision of widows or widowers remains minor, however, but in orphan's pensions, the national pension plays a significant role.

Overall, the significance of the earnings-related pensions in terms of statutory pensions has become stronger during the review period, while that of national pensions has weakened. The average pensions, particularly the new old-age pensions, are higher than before and the guarantee pension<sup>5</sup>, which was introduced in 2011, improves the status of the low-income people. This positive development has reduced the share of small pensions and poverty in retirement. Data on the development of pensions can be found in, for example, the following reports: Uusitalo (ed.) 2007; Kautto (ed.) 2011.

However, the pension level of all retirees is not on an adequate or reasonable level. Certain population groups suffer from poverty. Nevertheless, the situation has improved in the 2000s for the 65–74-year-olds. The income level of retired persons under age 54 has hardly risen in real terms, which is due to the low disability pensions (Kautto (ed.) 2011).

The average surviving spouse's pension in 2014 was EUR 546 (median EUR 456). In our review period, the average surviving spouse's pension of the under 65-year-olds has been reduced while the average surviving spouse's pension for those aged 65 or above have increased. Table 3.3 shows, in addition to the average pension, the size of pensions paid in the different stages of the distribution of survivors' pensions<sup>6</sup>. In small pensions, at the border of the lowest income decile (P10), the average pension was EUR 47. The survivors' pensions of the highest income decile (P99) were, on average EUR 2,336 in 2014. Apart from the highest pensions, the distribution of the pension income has remained unchanged.

Since 1994, the average survivors' pension has grown, in real terms, approximately 12 per cent (median 21 per cent). The orphan's pensions have remained more or less unchanged.

<sup>5</sup> The guarantee pension is a fixed pension paid to those with a small income. It supplements the national pension. The State finances both pensions.

<sup>6</sup> P10, P25... refer to the percentage points of the distribution of the survivors' pension. Median = P50.

**Table 3.3.***Survivors' pensions, EUR/month in 2014 prices.*

Year	P10	P25	Median	P75	P90	P99	Average pension
<b>All</b>							
1994	67	185	376	662	980	2 146	486
2004	60	186	419	716	1 044	2 230	517
2014	47	201	456	754	1 094	2 336	546
<b>Children</b>							
1994	60	161	304	466	665	1 348	353
2004	60	141	284	463	652	1 298	337
2014	60	151	307	519	730	1 400	370
<b>Surviving spouses</b>							
1994	74	186	391	687	1 012	2 228	502
2004	59	193	440	741	1 073	2 298	536
2014	37	208	471	772	1 116	2 381	560
<b>Surviving spouses &lt; 65 yrs</b>							
1994	128	305	554	800	1 084	2 185	607
2004	51	307	584	851	1 152	2 275	629
2014	0	227	515	811	1 128	2 211	574
<b>Surviving spouses 65+ yrs</b>							
1994	67	160	340	627	974	2 235	465
2004	60	178	407	705	1 048	2 303	513
2014	45	206	464	765	1 113	2 403	558

The pension of men is smaller than that of women. The gap has widened. Under the review period, the real term pension of male recipients has been in the decline and that of female recipients on the increase. In 1994, the average pension of male recipients was EUR 241 and that of female recipients EUR 520, a ratio of 46 per cent. In 2014, the average pension for female recipients had risen to EUR 520, while that of male recipients had decreased to EUR 217 euro. The ratio had thus dropped to 35 per cent.

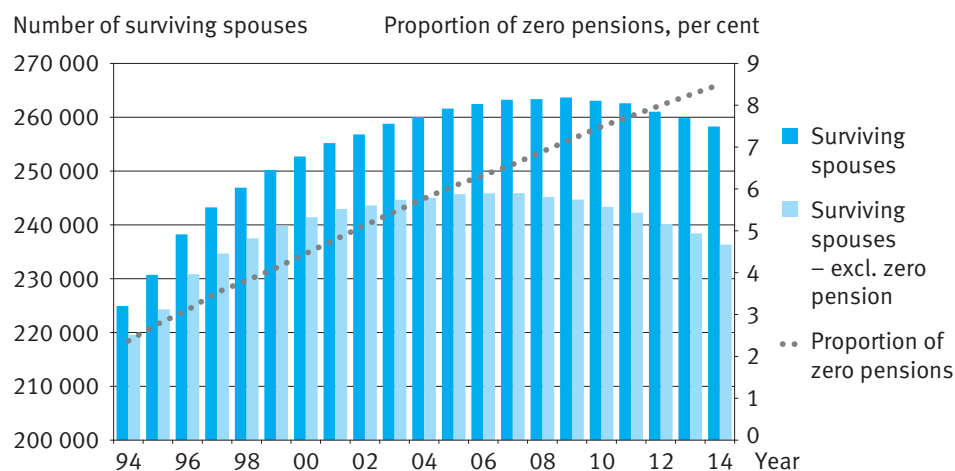
As of 1990, the pension deduction has cut pensions (Figure 3.7). The surviving spouse's pension of male recipients is often reduced to zero. This is the case with at least every fourth surviving spouse's pension of both working-aged and older male recipients.

The level of the statutory pension provision of recipients of the survivors' pension is now, in practice, on the same level compared to other pension recipients. Figure 3.8 shows that the real term development of the level of survivors' pensions has been rather moderate. The overall pension<sup>7</sup> of survivors' pension recipients, on the other hand, has developed during the review period at almost the same pace as the level of pensions received in one's own right. This means that the recipients of the surviving spouse's pension very often receive a pension in their own right as well. If we compare the level of the overall pension of those who receive a surviving spouse's pension to the level of those who receive a pension in their own right, we note that the levels are practically the same.

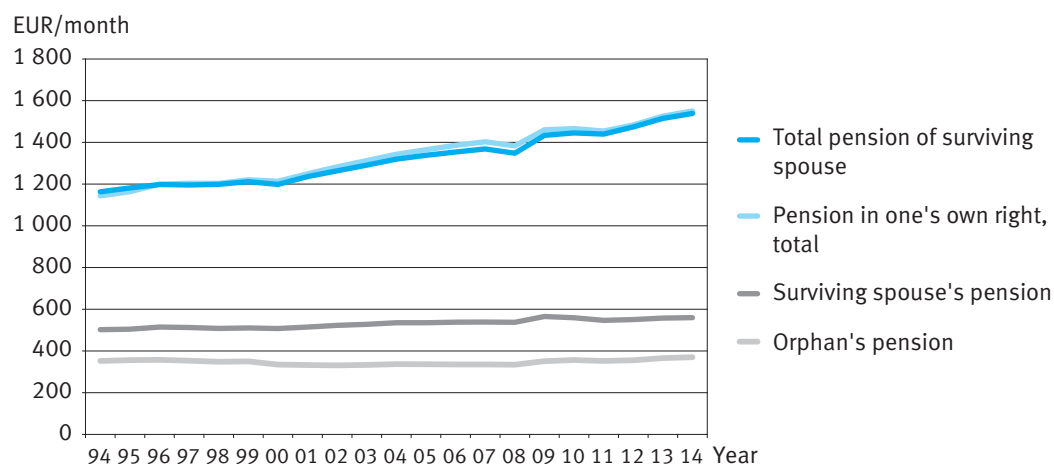
<sup>7</sup> The figure for the overall pension does not include the part-time pension.

**Figure 3.7.**

*Frequency of surviving spouse's pensions reduced to zero due to integration of pensions in 1994–2014.*

**Figure 3.8.**

*Average statutory pension of certain population groups, EUR/month in 2014 prices.*



The real-term increase of the surviving spouse's pension level in two decades has been six per cent. The level of the orphan's pension has remained unchanged. The overall pension of the surviving spouse has grown 31 per cent in real terms. As a result of the pension integration, some of the surviving spouse's pensions have been reduced to zero. The zero pensions have been included in the figures and graphs of the tables.

One way to assess the adequacy relating to pension provision is to measure how the income of people who receive a survivors' pension develops compared to the rest of the population. Based on available data, we can compare those who have been retired for 18, 12 or 7 years. The review renders two observations. Firstly, the overall statutory pension of surviving spouses remains at a relatively good level. Even after several years, the pension provision of surviving spouses does not diverge from that of others, and the pensions of surviving spouses retain their purchasing power. Secondly, those who have become

surviving spouses at different points in time (1994, 2000 and 2015) seem to be in similar positions when comparing them with each other.

### Income of elderly surviving spouses and poverty

According to a follow-up study relating to the period 1996–2008 (Rantala 2013), the income structure and poverty of Finnish surviving spouses on an old-age pension have changed. When the income of a household consists of other financial income than pensions and wages, the annual income of surviving spouses in 2008 amounted to approximately EUR 16,800. When the income is measured with an equivalent income, the share of the pension in one's own right is approximately half and the share of the surviving spouse's pension is about one fifth. During the review period, the real income grew by one fourth. Compared to that of other retirees, the income of surviving spouses was about 85 per cent and, compared to the entire population, about 70 per cent. The position of surviving spouses has become weaker compared to the total population during the review period, even though the ratio to all retirees has remained unchanged. The income structure of surviving spouses is somewhat similar to that of all retirees, although the income of surviving spouses is approximately 15 per cent lower. This can be explained mainly by the fact that the surviving spouses live alone.

The income differences in Finland between 1996 and 2008 have grown in all large population groups, including that of surviving spouses. In the income distribution of the entire population, the surviving spouses have smaller than average incomes. Sixty per cent of them fall into the three lowest income deciles.

Poverty is more common among surviving spouses than among all retirees or the overall population. In 2008, the poverty risk, based on the 60-per-cent limit, was 35 per cent for surviving spouses while it was 22 per cent for other retirees and 15 per cent for the overall population. Although the poverty risk of surviving spouses has risen during the review period, their serious income-related problems are smaller than those of the overall population. Poverty relates to living alone. In particular, elderly female surviving spouses are facing a higher risk of poverty.

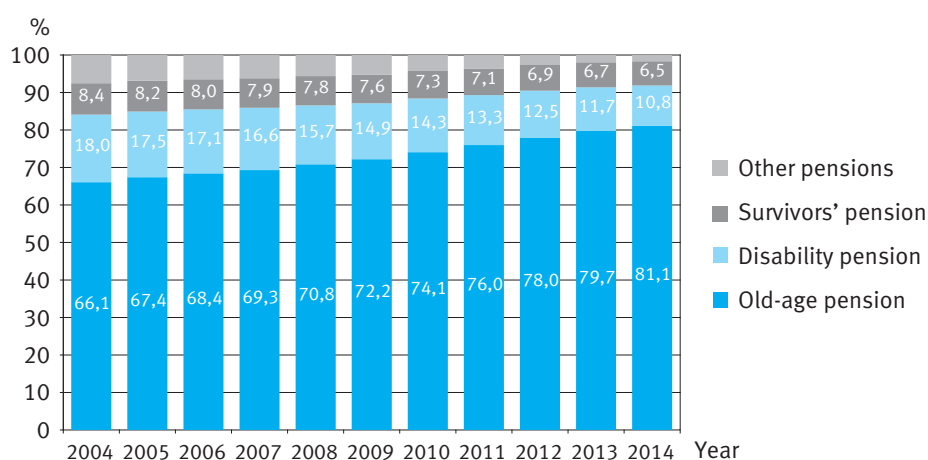
The poverty risk of retired surviving spouses and all retirees, by gender, at the 60% poverty risk limit in 2008, in per cent. Female population 658,300 and male population 517,900.

	Female	Share of female population, %	Male	Share of male population, %
All retirees	26	12.6	18	9.9
All retirees, 75–85 yrs	35	3.5	21	2.2
All retirees, 85+ yrs	43	1.2	19	0.4
All retirees, living alone	45	5.3	43	2.6
All retirees, living alone, 75–85 yrs	51	2.0	42	0.6
All retirees, living alone, 85+ yrs	53	0.9	30	0.2
Retired surviving spouse	38	3.8	23	0.8
Surviving spouse, living alone	43	3.1	27	0.7
Surviving spouse, living alone, 75–85 yrs	48	1.4	34	0.3
Surviving spouse, living alone, 85+ yrs	54	0.7	26	0.1

## 4 Costs of survivors' pension

The total pension expenditure in the earnings-related and national pension systems in the last two decades has grown 2.6-fold. In 1992, the total pension expenditure was EUR 10.3 billion. In 2014, it had grown to EUR 27.5 billion. Figure 4.1 shows that the increase in the last decade is mostly due to the increase in the old-age pension expenditure which has grown by 15 percentage points in the last decade. The shares of disability pension and survivors' pension expenditure have decreased (Finnish Centre for Pensions 2014).

**Figure 4.1.**  
*Statutory pension expenditure by pension type, per cent.*



In the partially funded Finnish pension system, the pension expenditure is covered by pension contributions and investment returns. The pay-as-you-go (PAYG) insurance contribution plays a central part in the financing of pensions. The role of pension funds<sup>8</sup> is to level out the pressure to raise the pension contribution rate. In the private sector, the earnings-related pension contribution is, on average, 24 per cent of the wage in 2015.

Although there have been fewer starting survivors' pensions in recent years than before, the population statistics and forecasts of Statistics Finland suggest that the number of survivors' pension recipients will be growing slightly in the future.

The long term projections of the Finnish Centre for Pensions (Reipas & Sankala 2015) show in what direction the expenditure will develop under current legislation, population structure and assumptions made. According to the projection, the overall pension expenditure will continue to grow, peaking around the year 2030, when the pension expenditure relative to GDP will be approximately 15 per cent. After that the expenditure will level out at around 13 per cent. Figure 4.2 shows the expenditure relative to the wage sum, per pension type.

At the moment, the private-sector survivors' pension expenditure is approximately eight per cent of the overall private-sector pension expenditure. It is projected to decrease relative

<sup>8</sup> In 2014, the private and public sector pension funds totalled EUR 172 billion, i.e. 84.6 per cent of GDP (Finnish Pension Alliance TELA 2015).



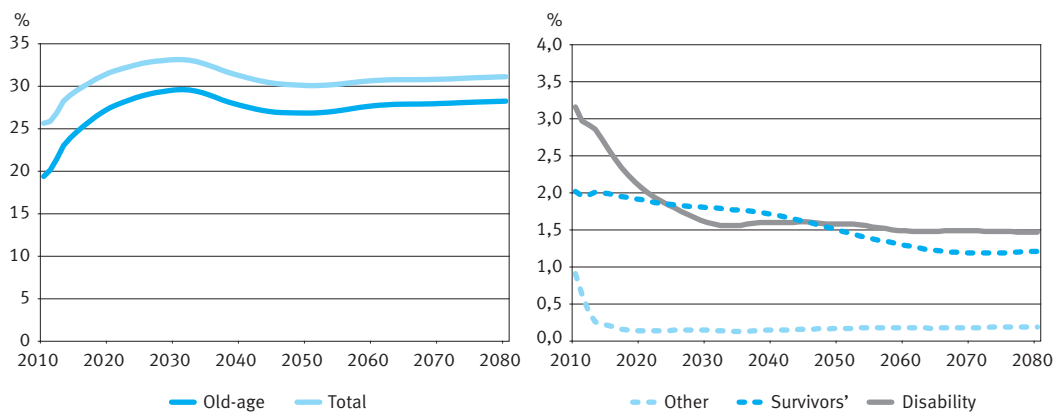
to the wage sum in the future. By 2030, the private-sector survivors' pension expenditure is estimated to grow by 50 per cent if the current legislation remains in force.

The number of working-age surviving spouses has reduced and continues to do so. As for the private-sector earnings-related pension expenditure, the share of the expenditure of surviving spouses aged above 65 has grown to nearly 80 per cent in recent years. Simultaneously, the share of the expenditure of surviving spouses aged under 65 years and children has constantly declined.

Survivor's pensions are financed jointly with premium income (PAYG). All insured and employers pay for survivors' pensions with their pensions contributions. The impact on the contribution level is currently approximately two per cent of the wages.

**Figure 4.2.**

*Earnings-related pension contribution relative to wage sum in 2010–2080, by benefit, per cent.*



According to statistics, the insurance portfolio of individual life insurance amounted to EUR 3.6 billion at year-end 2012 and that of group life insurance to EUR 1.4 billion (Financial Supervisory Authority 2013). If the assets of life insurance are compared to those of statutory pension funds, we note that their significance is minor (3.5 per cent).

## 5 Assessing Finnish survivors' pensions

The statutory pension system in Finland is comprehensive. Each Finnish citizen receives pensions from the statutory pension system either as an earnings-related or a national pension. The pension system also secures the income of the surviving spouse and the children if the family's breadwinner dies.

The deceased person's married spouse and the children under the age of 18 are eligible for the surviving spouse's pension. The surviving spouse's pension paid from the national pension system is paid for a fixed term. As a rule, the equivalent pension paid from the earnings-related pension system is a lifelong pension. As the population has aged, surviving spouse's pensions have been paid for clearly longer periods of time. For example, in 2014, surviving spouse's pensions were paid for an average period of 17 years. As a result, the surviving spouse's pension expenditure has nearly doubled over the last two decades.

### *Surviving spouse's pension prevents poverty*

The majority of the surviving spouse's pension recipients have retired on an old-age pension. The majority of the surviving spouse's pension recipients – four out of five – are elderly women aged above 65. Elderly people who live alone usually have low incomes, and their income is supplemented by the surviving spouse's pension (Rantala 2013). Becoming a widow(er) is still a significant poverty risk (Suoniemi 2013; Ruotsalainen 2013), and the surviving spouse's pension is not always sufficient to prevent poverty in old age (Määttänen 2014). It has been estimated that, as the surviving spouse becomes alone, he or she should receive 65–70 per cent of the family's former income to retain a reasonable standard of living (Barr 2013).

In the survivors' pension reform in 1990, the calculation method of the surviving spouse's pension was changed in a means-tested direction so that both the deceased person's and the beneficiary's pension accruals affect the calculation. Since means-testing is ill-suited in social insurance, the reform received much criticism when the law was drafted. The calculation method has been criticised also because it is difficult to grasp. (Takala 2013.) On the other hand, the calculation method has been considered good because it acknowledges the surviving spouse's need for the pension to make ends meet (Määttänen 2014).

It can be estimated that the surviving spouse's pension reduces, in particular, the poverty of elderly surviving spouses who live alone. Abolishing the surviving spouse's pension would clearly lead to poverty among the surviving spouses and to an increasing need for other forms of financial support. For example, an increasing number of surviving spouses would become eligible for the guarantee pension and the housing allowance if the surviving spouse's pension was abolished. (Koskenvuo *et.al.* 2014.)

### *Change in family structure challenges legislation's understanding of family*

In legislation, the right to a surviving spouse's pension is based on marriage or a registered partnership. Marriage is a common form of cohabitation, but families and the understanding of the family concept have changed in recent decades. Cohabitation without marriage has become particularly popular. Currently, every fifth family is based on cohabitation, and the number of marriages is declining (Official Statistics of Finland 2014). Relatively new phenomena in Finland are the rainbow families (where at least one of the parents belongs to a sexual minority) and families where the children have more than two social parents (Pohjanpää 2013).

The number of consecutive marriages is also higher than before. Divorces have become more common, and the group of married middle-aged people has continually declined. In Finland, half of the marriages end up in a divorce (Official Statistics of Finland 2014) and the divorce rate has been among the highest in the European Union in the 2000s. An increasing number of middle-aged people living alone are in relationships without cohabiting, and the number of people who have several partners throughout their life has also grown. Approximately five per cent of men and women never marry (Kontula 2013). The changes in family structures have been rapid, and legislation has reacted to these changes poorly. Prof. Barr, who evaluated the Finnish pension system, suggests that the pension entitlement be shared in such situations in life where the spouses are left alone or end up divorcing (Barr 2013).

The marriage frequency is declining in European countries. In Finland, the marriage frequency is at a slightly higher level than in the EU28 countries on average (Eurostat 2015). The share of children born out of wedlock was 42.1 per cent of all children born in Finland in 2013 (EU28: 40%). The same percentage was 39.2 per cent in 2000 and considerably lower in earlier decades. (Eurostat 2015). Children born out of wedlock are entitled to an orphan's pension, but a cohabiting surviving spouse is not entitled to a surviving spouse's pension in Finland. Since the number of children born out of wedlock is quite high, cohabiting families with minor children in which one of the spouses dies may struggle greatly to make ends meet.

On the other hand, changes in family structures and women's working may reduce the need for a surviving spouse's pension since, in principle, more people have the possibility to work and earn a pension when the gender gaps in length of working life narrow (Hietaniemi 2014b).

### *Surviving spouse's pension challenging in terms of equality*

The Finnish public discussion has paid attention to the group of people who never marry. The fact that single people pay the statutory survivors' pension contribution as part of their overall earnings-related pension contribution, without ever benefitting from it, has raised criticism. In other words, the risk of becoming a surviving spouse will not materialise for all, and not all are eligible for a surviving spouse's pension. (Lilja 2012; Määtänen 2014).

Defining a family solely based on marriage or a registered partnership is, on the whole, problematic. Accepting only certain types of families as correct families is a moral statement.

In line with the neutrality principle, it is not the task of legislation to steer people's family behaviour, unless there is a particular need for it. (Faurie & Kallioma-Puha 2010). Both the changing family structure and the neutrality principle challenge the concept of the family in survivors' pension legislation. According to an international evaluation, one of the weaknesses of the Finnish pension system is precisely the slow reaction to changes in family structures (Barr 2013).

Survivor's pensions are financed collectively, with approximately two percentage points of the obligatory earnings-related pension contributions allocated to the financing of survivors' pensions. Therefore, the survivors' pension is viewed as an income transfer from single-person families. Since, for the above-mentioned reasons, the survivors' pension is not available to all, its financing has been criticised and a more specific allocation of the contribution has been called for (Hietaniemi 2014a). It has also been suggested that the survivors' pension should be abolished as a statutory benefit and made a private insurance instead (Määttänen 2014).

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## APPENDICES

### Appendix 1. Survivors' pensions in the Nordic Countries

#### *Sweden*

The surviving benefit is paid to a surviving spouse under the age of 65 years who lived together with the deceased at the time of his or her death. The pension amounts to 55 per cent of the calculated old-age pension of the deceased. This initial survivor's benefit is paid for 12 months. If the surviving spouse has minor dependent children, a continued initial benefit is paid for another 12 months or until the younger child turns 18. The earnings-related initial benefit can be supplemented with a guaranteed pension.

The children's pension benefit is paid to children under age 18. Children above the age of 18 can be granted a children's pension benefit if they study in an institution within primary or secondary education. The pension is not paid, however, after the child turns 20 years.

The children's pension benefit is determined based on the amount of the deceased person's pension so that the child receives 35 per cent of the deceased person's pension if the child is under 12 years, and 30 per cent if he or she is above 12 years. If there are several children, they all receive the same pension amount, regardless of age.

#### *Denmark*

From the national pension system, if both married or cohabiting spouses are retired, the surviving spouse will receive the pension granted to the deceased person as a dependent survivor's pension for three months after the death of the other spouse. Those who are not eligible for the dependent survivor's pension may be granted an income-tested dependent survivor's allowance, paid as a lump sum.

The survivors' pension of the supplementary pension system is granted to the surviving spouse or children as a lump-sum benefit of a set size. The surviving spouse qualifies for the lump-sum paid to the surviving spouse if he or she was married to (or in a registered partnership with) the insured at the time of death.

Each family member who qualifies for the benefits will receive a lump-sum compensation of DKR 50,000 (~EUR 6,730). The benefit paid to a surviving spouse depends on which age the insured was at the time of death. The amount of the compensation decreases gradually as of age 66 so that no benefit is paid at all if the insured has died at age 70 or above.

#### *Norway*

Surviving spouses under the age of 67, depending on their own income, may be entitled to a basic survivor's pension. The survivor's pension can be paid to the surviving spouse, a cohabiting partner, the child or a former spouse of the deceased and, in certain cases,



to other close relatives. Partners in registered partnerships are equal to married spouses and have the same pension rights as married surviving spouses. The survivor's pension is converted into an old-age pension at age 67, which means that the old-age pension based on the survivor's pension will be higher than it would be otherwise.

The survivor's pension of the national pension system consists of a basic pension and a possible supplementary pension and/or a special supplement. The pensions are income- and means-tested. The surviving spouse may also receive a temporary training or child care benefit, along with certain other benefits.

The supplementary survivor's pension amounts to 55 per cent of the supplementary pension the deceased would have received if he or she were entitled to a full disability pension at the time of death. The surviving spouse's own income reduces both the basic and the supplementary pension. The temporary survivor's pension is of the same amount as the survivor's pension.

Children under the age of 18 are entitled to a children's pension when losing a parent. A child who has lost both parents is entitled to the pension until the age of 20 if he or she is a full-time student. The children's pension of the family's first child who has lost one parent is 40 per cent of the basic amount per year and 25 per cent for each of the other children.

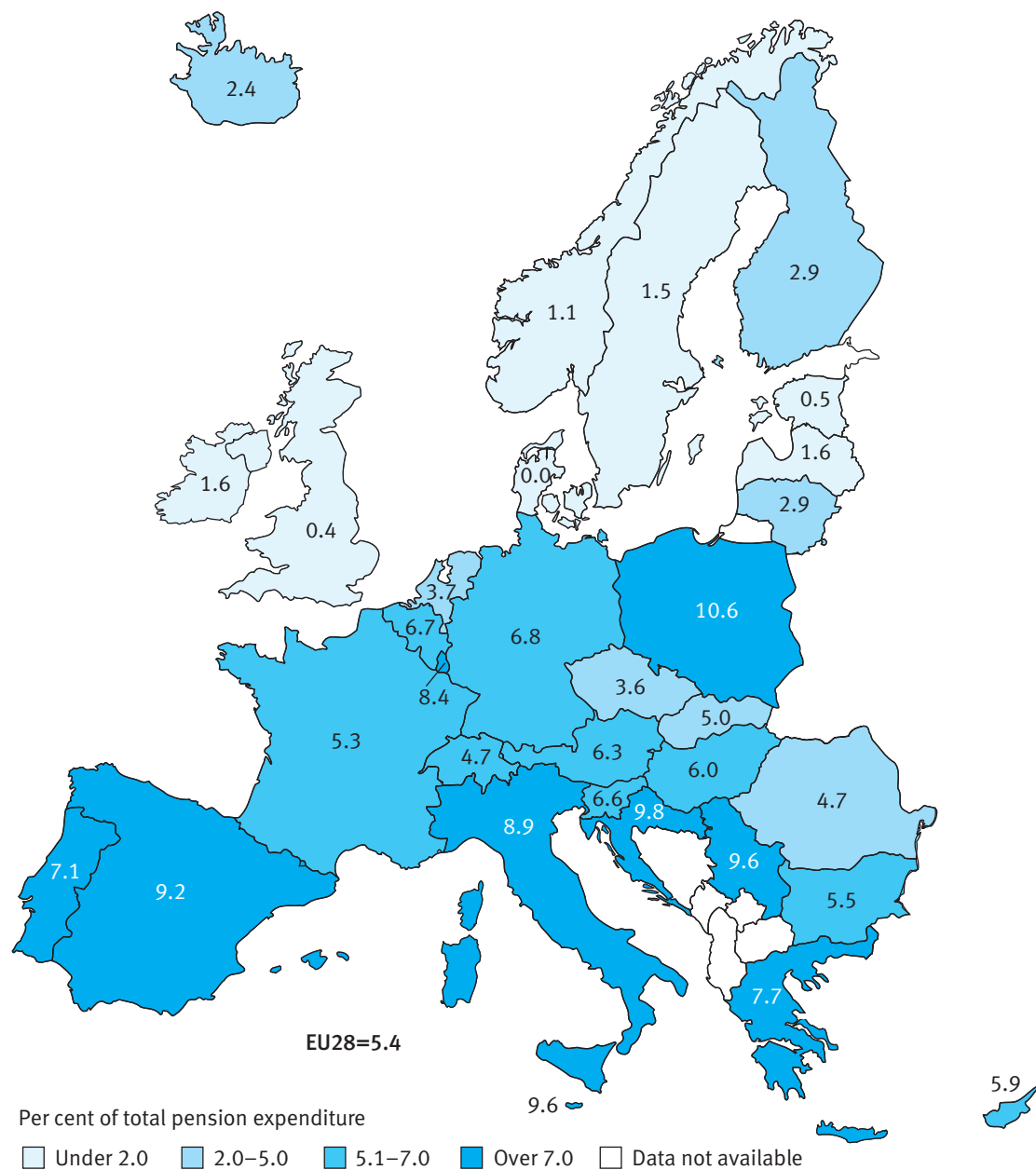
### *Iceland*

A surviving spouse under the age of 67 is paid an allowance for six months. Children under age 18 are entitled to a children's pension.

## Appendix 2 Survivors' Pension Expenditure in Europe

Figure 2.1.

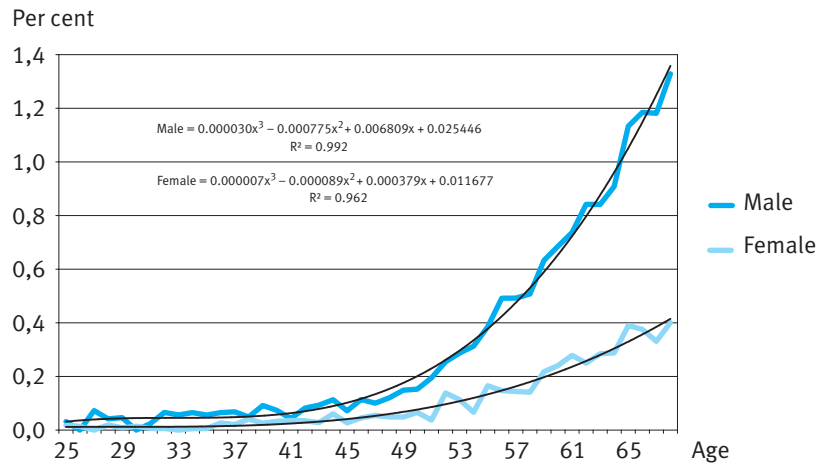
Survivors' pension expenditure of total pension expenditure in 2012, per cent.



### Appendix 3 Mortality among married population in 2013

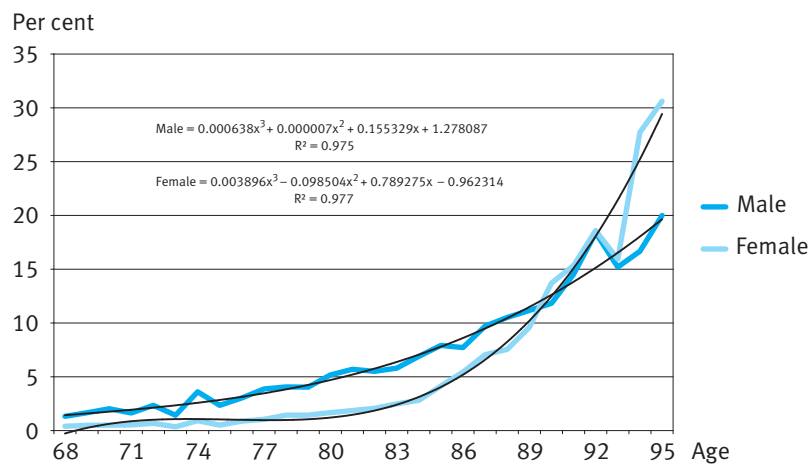
**Figure 3.1.**

*Mortality by gender, 25–68-year-olds, per cent.*

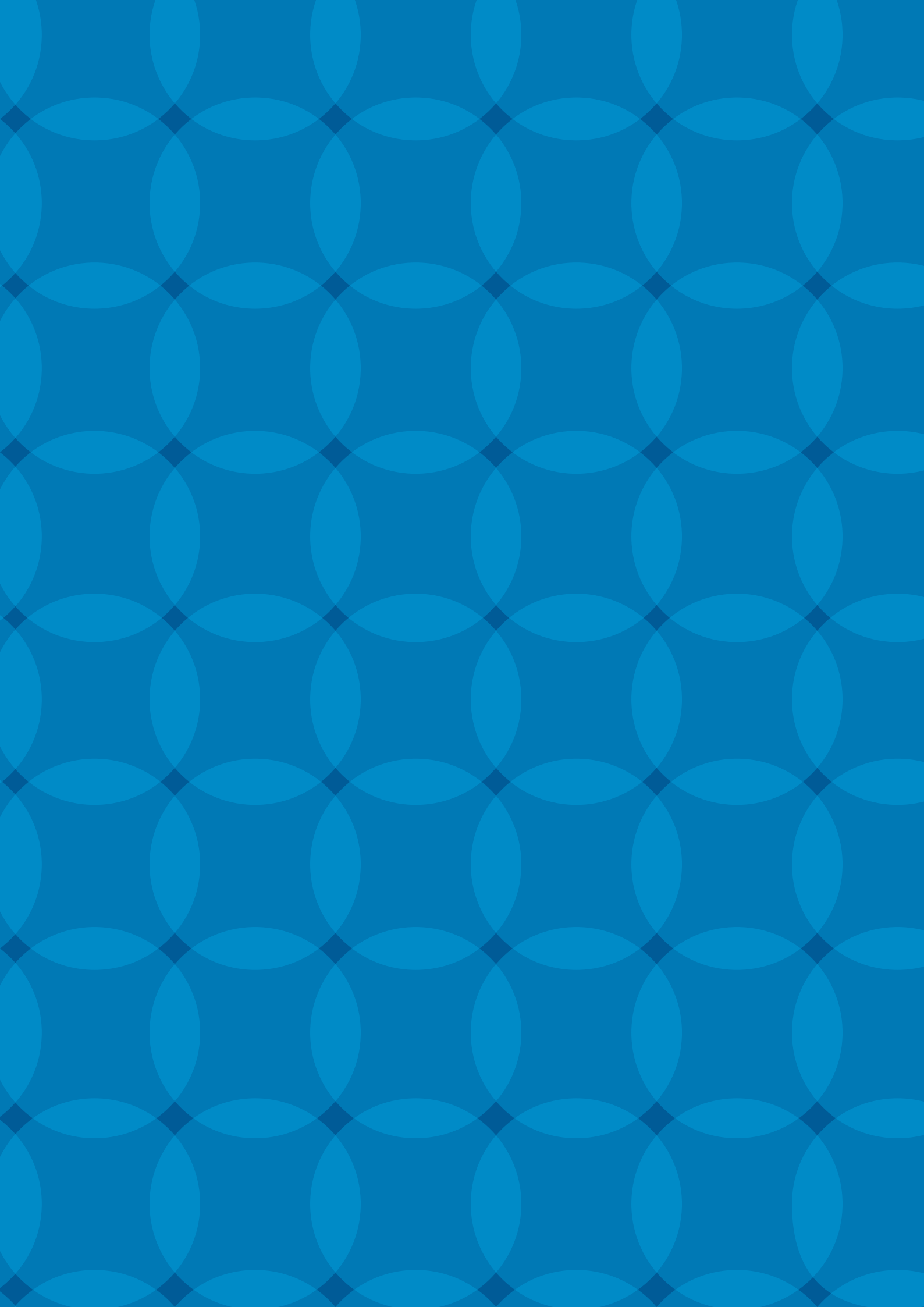


**Figure 3.2.**

*Mortality by gender, 68–95-year-olds, per cent.*







**The Finnish Centre for Pensions** is a statutory co-operation body, expert and producer of joint services for the development and implementation of earnings-related pension provision. The aim of our research is to produce high-quality, widely applicable information for the evaluation and development of pension provision.

**Eläketurvakeskus** on työeläketurvan kehittämisen ja toimeenpanon lakisääteinen yhteistyöelin, asiantuntija ja yhteisten palveluiden tuottaja. Tutkimustoiminnan tavoitteena on tuottaa korkeatasoista ja laajasti hyödynnettävää tietoa eläketurvan arvioimiseen ja kehittämiseen.

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